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MAY 15 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service) CC Docket No. 97-160

TO: The Commission

COMMENTS OF THE WESTERN ALLIANCE

The Western Alliance, by its attorneys, hereby comments on the proposals referenced in the Commission's Public Notice (Common Carrier Bureau Seeks Comment On Proposals To Revise The Methodology For Determining Universal Service Support), DA 98-715, released April 15, 1998.

The Western Alliance believes that the methodology for determining Universal Service support for rural carriers should not be changed further at this time or within the foreseeable future. For more than a decade, a Universal Service system based upon actual costs has enabled rural telephone companies to provide first-rate telecommunications facilities and services to their sparsely populated and high cost service areas. There is no need or reason to replace cost-based mechanisms during the foreseeable future with any of the untried, experimental plans and proxy models under consideration. Rather, a cost-based Universal Service mechanism should be retained for rural carriers until well after January 1, 2001.

The Western Alliance

The Western Alliance is a consortium of the Western Rural

Telephone Association and the Rocky Mountain Telecommunications Association. It represents nearly 250 carriers serving rural areas west of the Mississippi River, including Alaska, Hawaii and insular territories. It has participated in several rulemakings regarding the Telecommunications Act of 1996, including earlier phases of the present Universal Service proceeding.

Most Western Alliance members are small companies that serve relatively few access lines (generally, 3,000 or less), have limited revenue streams, and lack significant economies of scale. Nonetheless, they incur high costs to install and maintain the switching, transmission and loop facilities necessary to serve rural communities and outlying farms, ranches and mines.

Because of their high costs and low customer densities, Western Alliance members have relied upon federal Universal Service mechanisms during the past decade for recovery of a critical portion of their service costs. Their continued ability to provide quality local service at reasonable and affordable rates will be vitally affected by the Commission's actions in this proceeding.

**There Is No Need Or Reason
To Change The Universal Service Mechanism For Rural Carriers**

In remarks prepared for delivery at the United States Telephone Association's (USTA's) April 27, 1998 "Inside Washington Telecom" luncheon, Chairman William Kennard recently indicated:

When it comes to our country's smaller, rural telephone companies -- companies that serve one-third the nation's geography but only about 5% of the population -- if it ain't broke, don't fix it. That may not be the way common carrier lawyers are supposed to talk, but that's really the way I

feel.

I visited a small rural telco not too long ago and what I saw was a first-rate telecommunications operation. I didn't see anything that was broken and I had no desire to offer any fixes. The Commission has already taken explicit small company support, changed the way that support is collected to be consistent with the 1996 Act, and made that support portable between competing carriers. That's a lot of change for companies that are geographically very targeted and undiversified.

My bottom line is that universal service reform is something that the Commission should do with small rural carriers, not to them. The Joint Board will soon appoint the Rural Task Force, which I fully support as a means of developing greater consensus on what further actions, if any, must be taken for universal service support to high cost areas served by small companies. But I also want to be clear on this point -- I see no reason why further small company reform must begin in 2001. We should make changes only when it is right to make changes, and not before.

The Western Alliance agrees with Chairman Kennard that further changes in the Universal Service mechanism for rural carriers are neither necessary nor appropriate during the foreseeable future.

The pre-1998 Universal Service Fund (USF), weighted dial equipment minutes (DEM) and Long Term Support (LTS) mechanisms enabled rural carriers to construct and maintain adequate switching and transmission facilities, so that their rural customers could obtain (at affordable rates) the voice, facsimile and information services they desired. In fact, a significant number of rural carriers have installed digital switches, interoffice fiber rings, and/or other facilities, and offered their rural customers services comparable in quality, price and efficiency with those available in urban and suburban areas.

For example, one Western Alliance member -- Interior Telephone

Company (Interior) -- has helped Dutch Harbor, Alaska (located in the Aleutian Islands about 800 miles southwest of Anchorage) to grow from a ghost town to a thriving seaport and seafood processing center. Dutch Harbor was a significant military base during World War II, but had shrunk by 1970 to a community of several hundred people with one telephone and no economic base. In 1972, Interior brought telephone service to Dutch Harbor. From an initial base of 49 customers, the Dutch Harbor telephone system has grown to serve 2,300 customers. Dutch Harbor has become a prosperous seaport, and four new seafood processing plants have brought in hundreds of millions of dollars of investment and thousands of jobs. At present, Interior provides single-party service, digital touch tone dialing, equal access to long distance carriers, custom calling features, access to operator service, E-911 service and directory assistance. It has installed T-1 facilities to enable a Dutch Harbor health clinic to transport x-rays and other critical medical data to and from the regional hospital in Anchorage. It also provides Internet access to the local school and library.

In addition, the Commission's own study area waiver files show that numerous rural carriers have been providing quality facilities and services to their rural service areas, and have sought to acquire and upgrade exchanges in neighboring areas. See e.g. US West Communications, Inc. and Triangle Telephone Cooperative Association, Inc., 9 FCC Rcd 202 (Com. Car. Bur. 1993); US West Communications, Inc. and Nemont Telephone Cooperative, Inc., 9 FCC Rcd 721 (Com. Car. Bur. 1994); GTE Southwest Incorporated and

Pioneer Telephone Cooperative, Inc., 9 FCC Rcd 7785 (Com. Car. Bur. 1994); US West Communications, Inc. and Copper Valley Telephone, Inc., 10 FCC Rcd 3373 (Com. Car. Bur. 1995); GTE Midwest Incorporated and Modern Telecommunications Company, 11 FCC Rcd 11,553 (Com. Car. Bur. 1996); Accipiter Communications, Inc. and US WEST Communications, Inc., 11 FCC Rcd 14,962 (Com. Car. Bur. 1996); Pend Oreille Tel. Co. and GTE Northwest, Inc., 12 FCC Rcd 63 (Com. Car. Bur. 1996); Rural Telephone Service Company, Inc., 12 FCC Rcd 785 (Com. Car. Bur. 1997); and Union Tel. Co. and US WEST Communications, Inc., 12 FCC Rcd 1840 (Com. Car. Bur. 1997).

The modified USF implemented on January 1, 1998 continues to distribute cost recovery support to rural carriers on the basis of their actual costs until at least January 1, 2001. The Western Alliance opposes several aspects of this modified USF because it reduces the amount of cost recovery provided to rural carriers in violation of the critical Section 254 principles of "specificity, predictability and sufficiency" [47 U.S.C. § 254(b)(5)]; "affordability" [47 U.S.C. § 254(b)(1)]; and "comparability" to services and rates in urban and suburban areas [47 U.S.C. § 254(b)(3)]. Primarily, the Western Alliance has opposed: (a) the new cap on Corporate Operations Expense (COE), which is precluding recovery from the USF of millions of dollars of actual, nondiscretionary executive, planning, and administrative costs incurred by some rural carriers; (b) the retention of the interim cap on the overall USF, which is depriving rural carriers of an increasing portion and amount of the cost recovery they would otherwise receive from the

USF; and (c) the requirement that USF cost recovery be "portable" to competitors, which will make it increasingly difficult for rural carriers to undertake long-term infrastructure investments. However, the Western Alliance has supported the Commission's decision to continue distributing USF dollars to rural carriers on the basis of their actual costs for at least the next three years.

The Western Alliance opposes the proposal by the Ad Hoc Working Group of Funding for High Cost Areas (Ad Hoc Group) for the adoption and implementation by January 1, 1999, of a new Universal Service support mechanism applicable to both non-rural and rural carriers. At best, the Ad Hoc Group's model is presently untested and untried. It is not yet discernable how the model will function when its current assumptions and estimates are replaced by the Commission's ultimately designated proxy model and by actual embedded cost and "hold-harmless" support data. For example, it is not clear: (a) how large the Ad Hoc Group's fund will become when operated under real world conditions; (b) how the size of the Ad Hoc Group's fund will be impacted by future access charge modifications; or (c) how the dollars in the Ad Hoc Group's fund will be distributed by state commissions among individual rural and other carriers.

The Ad Hoc Group's proposal includes an option for "hold-harmless" support. However, even if this option provides individual rural carriers with the same or substantially similar cost recovery as the existing transitional USF mechanism, what reason is there for the Commission to change from its present

transition mechanism to a new transition mechanism? More specifically, why should the Commission jettison the existing transition mechanism with which its staff and the industry are familiar, in favor of a "hold-harmless" option that has not yet been tried or tested under actual operating conditions? Given that the existing USF system has enabled rural carriers to furnish quality services at reasonable rates and because sudden or substantial changes in USF mechanisms may disproportionately affect the operations of rural carriers¹, the Commission should not flash-cut rural carriers to an untried new mechanism.

**The Commission Should Not Impose
Experimental Models Upon Rural Telephone Companies**

U S WEST Communications, Inc. (USW) has expressly stated that its proposed "Interstate High Cost Affordability Plan" (IHCAP) is intended only for non-rural local exchange carriers (LECs) at this time. It has declared that "[a]fter several years of experience under IHCAP, the Commission will be in a better position to decide what explicit funding plan will best meet the needs of rural LECs and their customers." "Proposal By U S WEST Communications, Inc. For Adoption of the Interstate High Cost Affordability Plan," April 27, 1998, Attachment II, p. 3.

The Western Alliance agrees that the Commission should not impose untested plans or experimental proxy models upon rural

¹ See Report And Order (Federal-State Joint Board on Universal Service, 12 FCC Rcd 8776, 8936 (1997)).

carriers at this time or later. No proxy model conceivable at this time can fairly and accurately consider and treat the unique and varying circumstances of the approximately 1,100 rural carriers serving the nation. Rural telephone companies were not constructed according to a common Bell System model, but rather were developed by different entities and different managements at different times with different equipment from different vendors across different terrain to serve the differing needs of different types of communities and outlying areas. As a result this variability among rural carriers, any attempt to impose a "one size fits all" proxy model can only create arbitrary "winners" and "losers" of USF cost recovery. This will result in reductions of services and investments in the rural areas served by the "losers," for rural telephone companies have little cushion or flexibility to withstand sudden or substantial changes in their interstate revenues and cost recovery.

**The Commission Should Reconsider And Reject
Its Proposed 25% Federal/75% State USF Mechanism**

The Commission's previous determination to fund only 25 percent of the future USF will improperly burden the states with funding 75 percent of what has been a wholly interstate mechanism for more than a decade. It is contrary to the language and intent of Section 254 of the Act, including: (a) the plain language of Section 254(a) mandating "federal universal service support mechanisms"; (b) the "affordability" principle of Section 254(b)(1); and (c) the "sufficiency" principle of Section 254(b)(5).

The underpinning of Section 254 is that the nation's public switched telephone network becomes more valuable to each citizen as the number of people connected with the network grows. In addition, the Congress made an express commitment in Section 254 to enable consumers in all regions, including low-income consumers and rural residents, to have access to the telecommunications and information services that are increasingly essential for participation in the economic, political and social life of the nation.

The Commission's decision to burden the states with an unfunded mandate to furnish 75 percent of future Universal Service cost recovery will require substantial increases in local service rates and other intrastate charges in many states. Particularly in sparsely populated Western states, there is simply not a large enough telecommunications revenue base to fund a state mechanism sufficient to replace the 75 percent federal shortfall without substantial local rate increases. These rate hikes will render local service much less affordable, particularly for low-income residents in high-cost rural areas, and will endanger the Universal Service goals and results which the Commission, the states and the telephone industry have worked for decades to achieve.

Conclusion

The Western Alliance reiterates that cost-based USF mechanisms have enabled rural carriers to compile an outstanding record of furnishing quality and affordable service to their isolated and high-cost service areas. These mechanisms not only are "not

broken," but have functioned effectively and efficiently to achieve the nation's Universal Service goals. Therefore, there is no need for substantial "fixes" or modifications for rural carriers, but rather the Commission should keep cost-based mechanisms in place unless and until it obtains substantial, real-world evidence that an alternative mechanism can achieve Universal Service more effectively and efficiently in rural areas. In particular, the Commission should not impose untested, experimental new plans and proxy models upon rural carriers, nor unfunded mandates which will render Universal Service cost recovery wholly insufficient in sparsely populated and predominately rural states.

Respectfully submitted,
THE WESTERN ALLIANCE

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CERTIFICATE OF SERVICE

I, Sharmon B. Truesdale, an employee in the law firm of Blooston, Mordkofsky, Jackson & Dickens, hereby certify that on this 15th day of May, 1998, I did send by first-class mail, a copy of the foregoing "Comments of Western Alliance" to the following individuals:

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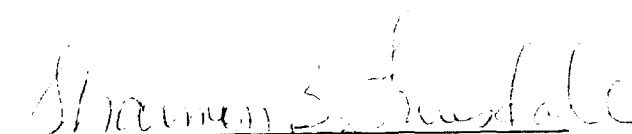
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